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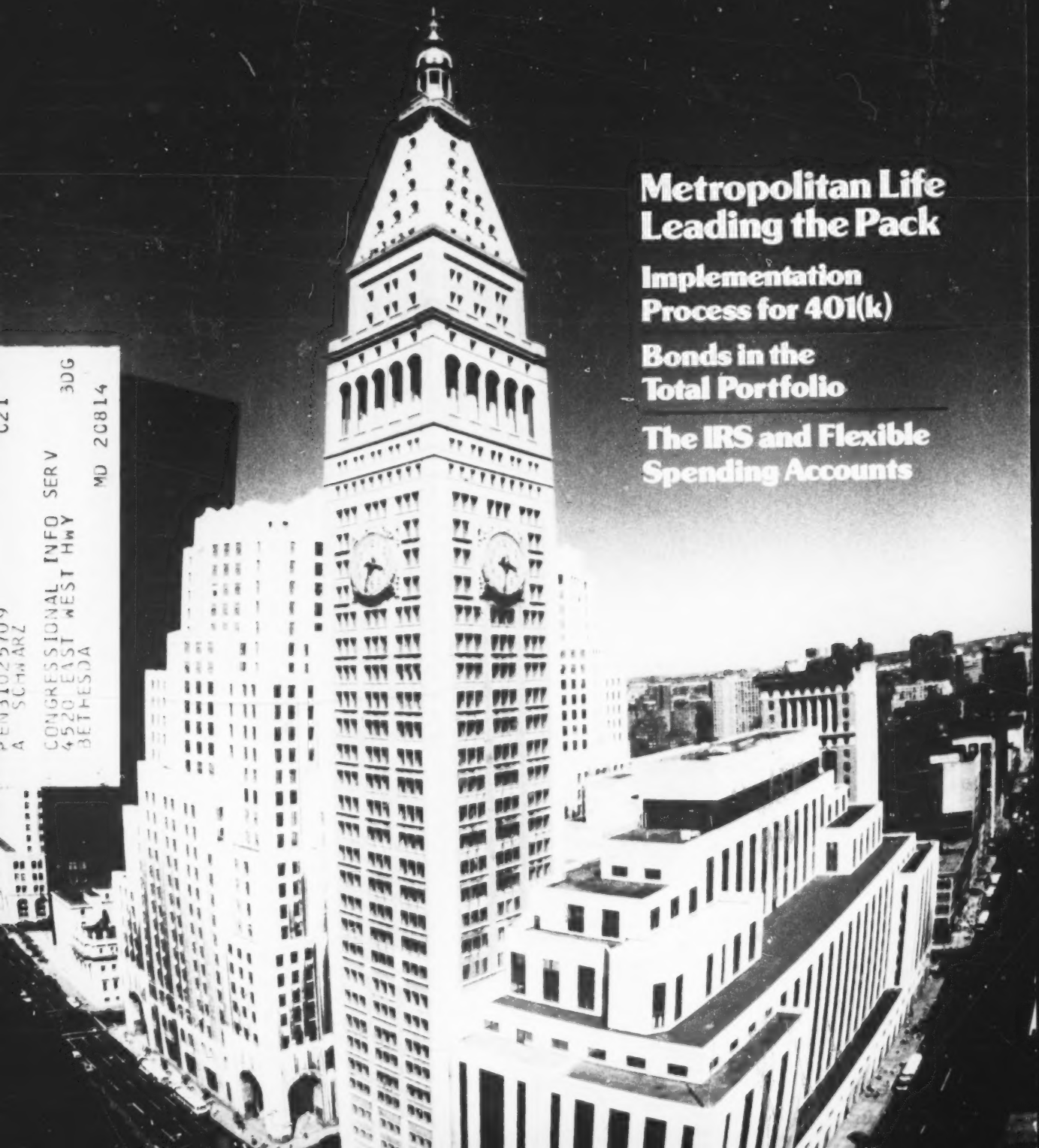

Metropolitan Life Leading the Pack

Implementation Process for 401(k)

Bonds in the Total Portfolio

The IRS and Flexible Spending Accounts

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Cover: **The Tower of Metropolitan Life rises high in the cover photo, just as the firm's investment management position is at the top of the list in pension fund and tax-exempt money. Story begins on page 28.**

Cover photo by Karl Nemecek.

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DOL files suit against counselor and trustees

■ The Department of Labor filed lawsuits February 3, 1983, in the U.S. District Court of the Southern District of Ohio in Cincinnati and the U.S. District Court for the District of Columbia in Washington, D.C., against an investment counselor and 27 trustees of three union pension plans for imprudently investing the plans' assets in companies associated with the investment counselor.

The complaints charge Sidney A. King and the trustees of the International Molders and Allied Workers Pension Fund, the MIRA-Molders and Allied Workers Pension Trust, and the International Association of Machinists and Aerospace Workers (IAM) Pension Plan with violating their fiduciary duties under the Employee Retirement Income Security Act (ERISA).

According to the suits, King breached his fiduciary duties by causing the plans to invest in the securities of companies in which he had an interest and from which he received economic consideration.

The trustees are charged with imprudently relying on the investment advice of King and investing the plans' assets in companies affiliated with him. The suits contend the plans incurred substantial financial losses as a result of the defendants' fiduciary breaches.

The two complaints seek to require that the defendants reimburse the plans with interest for all losses resulting from their fiduciary breaches and to return any benefits or profits derived by them.

The suits also ask the courts to appoint independent investment managers to handle the Molders, MIRA, and IAM plans; to bar King from serving as a fiduciary or service provider to any ERISA-covered plan for 10 years; and to enjoin all defendants from engaging in future violations of ERISA.

Named as defendants in the suits are King; Molders trustees Bernard Butsavage, Stanley J. Mierzejewski, William F. Cates, Floyd J. O'Nesky, Charles A. Boyd, Stanley J. Simmons, Lawrence J. Schutte, Leon Q. Neimeyer, Jack. I. Nestor, William F. Partridge, Victor W. Alcorn, James P. Stow, III, and the estate of Carl W. Studenroth; MIRA trustees Douglas J. Maher, Earle B. Kaufman, John O'Meara, Walter O. Larson, Orian Williams, as well as Butsavage, Cates, and the Studenroth estate; and IAM trustees Eugene Clover, William Winpisinger, George Poulin, Mark E. Pryor, Jr., Thomas Ducy, Roe Spencer, John F. Peterpaul, Stanley E. Jensen, Justin J. Ostro, and Michael Rygus.

CIGNA opens real estate account

■ CIGNA Capital Advisers, Inc., Bloomfield, Conn., an investment advisory company of CIGNA Corp., has received commitments, totaling $97 million, for a private real estate limited partnership designed for non-qualified pension funds, foundations, churches, and other organizations that fall under the Internal Revenue Code's 501(c) designation.

Real estate investment continues upward trend

■ Pension fund investors in real estate funds saw a 10.1 percent return for the first nine months of 1983 for properties located in the eastern region of the United States, according to the latest NCREIF report.

The report, published jointly by the National Council of Real Estate Investment Fiduciaries and the Frank Russell Co., is the only property-specific real estate performance yardstick for the United States.

Overall, tax-exempt institutional real estate portfolios continued their upward trend and provided a 7.6 percent return during the third quarter of 1983.

Survey shows ESOP's popularity growing

■ The annual survey of ESOP companies by The ESOP Association shows employee stock ownership plans (ESOP's) are growing in the financial and service industries, but the majority still remain in the light and heavy manufacturing industries.

The manufacturing industry has the largest percentage of employee ownership. The median number of participants in the ESOP is 182, with about 15 percent of ESOP participants being union members.

According to 56 percent of the companies, motivation and productivity increase when employees own part of the company. Ninety-eight percent of the ESOP companies have never asked employees to take a wage reduction or make wage concessions.

On the average, ESOP's own 28.8 percent of the stock of the companies. Eighteen percent of the companies are majority owned by their ESOP. The ESOP's likeliest to grow to majority ownership are those that include union members and those that exhibit strong improvement in employee motivation and productivity. Those companies participating in the 1982 and 1983 ESOP survey had increased ownership by their ESOP from 30.2 to 33.5 percent.

The largest number of ESOP's are closely held, but the publicly traded ESOP's are more likely to be leveraged. PAYSOP's also tend to be greater among publicly traded companies. Two-thirds of the companies offer employee benefits in addition to the ESOP. Geographically, the new ESOP's are appearing in the eastern part of the U.S.

Forty percent of the companies are putting between 10 and 15 percent of covered payroll into the ESOP.

	January-September 1983	Annual Average 1978-1983
All Regions	7.6	15.7
East	10.1	19.9
Midwest	6.2	10.6
South	6.3	14.1
West	7.7	17.3

International Pension World

The changing pattern of social security spending

The Organisation for Economic Co-operation and Development (OECD) recently prepared a report on social spending of the 24 OECD member countries for an international meeting of finance ministers in Paris.

The main message from the OECD is that excessive public spending is a malady that most member countries have. Two more important conclusions were also reached by the OECD:

1. Governments will have a much better prospect of maintaining spending on social services during the 1980's and 1990's than was thought possible a few years ago.
2. A severe public spending crisis looms in all OECD countries. It will be reached about 2010.

Between 1960 and 1975, the industrialized world's real social spending (health, education, pensions, and unemployment) was rising at an annual rate of 8 percent a year. Although this growth was cut in half during the next six years to 1981, the 4 percent average annual rate of real expansion in that period was much higher than now seems feasible for many countries.

The accompanying chart prepared by the OECD provides data on the social expenditure for seven member nations.

Between 1980 and 1990, the number of pensioners in the U.S. is projected to rise by 20 percent, in Japan by 33 percent, but by less than 3 percent in the United Kingdom. It should be understood, however, that from a public expenditure point of view it is a country's entire age profile which matters and not just the number of pensioners. For example, in France the number of people over age 65 is projected to decline by about 40,000 between 1980 and 1990, but the number of "over 60's" will rise by about 1.2 million during that same period.

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Apart from the trend for early retirement in Europe, which has been brought on by high unemployment, the effect on health spending could be dramatic. For example, again looking at France, the average hospital spending on 65-year-olds is about nine times the average for people in their 20's and 30's, and the average cost for people between 55 and 65 is about three times that for people under age 35.

The really severe public spending crisis threatens to strike all the major countries in about 25 years. This is when the post war "baby boom" starts to retire. At that time, a large number of pensioners will be supported by a declining population of working age people.

Since a decade is a very, very long time in politics, the main risk is that the unpopular question of whether pension benefits should be made less generous or whether contributions should be raised will, in all likelihood, not be tackled until it is too late.□

Social Expenditure (SE)[1]

	SE as % of GDP		Real SE per Capital (U.S. Dollars)		Annual Growth Rate of Real GDP		Annual Growth Rate of Real SE	
	1960	1981[2]	1960	1981[2]	1960-75	1975-81[2]	1960-75	1975-81[2]
U.S.	10.9	21.0	422	1,196	3.4	3.2	7.7	2.9
Japan	8.0	17.5	81	639	8.6	5.1	9.7	8.9
West Germany	20.5	31.5	380	1,876	3.8	3.0	6.7	1.9
Canada	12.1	21.7	369	1,028	5.1	3.3	9.5	2.9
France[3]	13.4	23.8	272	936	5.0	2.8	7.4	7.6
Italy	16.5	29.1	204	344	4.6	3.2	7.4	3.1
U.K	13.9	24.9	290	547	2.6	1.0	5.6	3.3

[1]Health, pensions, education, unemployment, and other benefits.
[2]Or latest year available.
[3]French figures exclude education expenditure.

Source: OECD